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STAT

OLL 84-4787
14 December 1984

MEMORANDUM FOR: See Distribution

VIA: Chief, Liaison Division, OLL

FROM: [redacted] STAT

SUBJECT: Senate Plan for Federal Retirement System

1. Attached hereto is Senator Ted Stevens' (R., AK) draft proposal for a Supplemental Retirement Plan for all Federal Employees hired after 31 December 1983. (Senator Stevens will continue to chair the Post Office and Civil Service Subcommittee of the Governmental Affairs Committee). Employees who were on the government rolls prior to 1984 and covered by the current civil service retirement system would have the option of transferring into the Stevens plan with credit for service under the old system.

2. This proposal is being reviewed by the Administration and selected Federal employee unions. So far, reactions have been favorable with one exception: the Administration is highly critical of the "401 K Plan" because of the cost to the government. The contributions ($2 from government for every $1 contributed by employee up to 4 percent of employee basic pay) would be paid out immediately, rather than only when benefits are paid out. Other concerns include: Who would appoint/approve/control the group that manages the fund; how do you deal with the potential for market manipulation, or bad investments; how do you make investment decisions? These and other issues will be discussed during the next several weeks and modifications to the draft plan will be made before it is introduced.

3. Senator Stevens, who plans to try again for the leadership position in 1986, wants the success of having his proposal enacted. He plans to introduce legislation in

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January, hold several hearings through February, have markup and vote the bill out of Subcommittee/Committee in Spring, and to bring it to the floor for debate and Senate approval next Summer. All of my Senate contacts are saying confidentially that this will happen.

4. Senator Stevens wants one retirement system for all Federal employees. He is opposed to separate plans for special retirement classes, including employees of the CIA. Stevens wants to include all groups which have early out provisions (CIA, law enforcement, park police, Secret Service, air traffic-controllers and Foreign Service Officers) under a section for "all special retirement classes." For CIA, he would include a provision whereby the Agency would administer its own program (because of cover considerations). To date, only the law enforcement people and CIA (the undersigned) are in contact with Stevens' staff.

5. Senator Stevens believes that these "special retirement classes" should retain a relative early out advantage; as the age for the rest of the Federal workforce is raised, the retirement age for the early out groups will be raised.

6. Senator Stevens' principal aide on retirement (James Cowan, [redacted] ILLEGIB ILLEGIB Government Affairs Committee. A less desirable method for CIA to get coverage is through the amendment process which would lead to floor discussion. (Note: We are talking about CIA employees who are hired after 31 December 1983 and who would have been candidates for CIARDS. Stevens now is [redacted] looking at changes to any existing retirement systems, including Civil Service and CIARDS.)

7. The retirement options that CIA managers are currently considering have not been disclosed to Senate or House Staffers. It is quite clear, however, that the Senate staffers who are working the retirement issue are [redacted] that would differ markedly from the retirement system being considered for other Federal employees, and against a CIA system that would cover all CIA employees. ILLEGIB

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8. Insofar as the House position on this "separate versus equal" issue, it is too soon to say. The Post Office and Civil Service Committee is moving much more slowly than the Senate and has not made detailed decisions on design or participation. The House, unlike the Senate, is looking at the entire package of Federal employee entitlements, including pay and health insurance, and is expected to propose a retirement package that will be viewed by employees as relatively very generous.

9. The Administration is expected to push for an austere supplemental retirement package for employees hired after 1 January 1984, and for changes in the current Civil Service Retirement System. Few details are known regarding the Administration's plans for the supplemental package. Insofar as changes to the current system, we have been hearing about them for three years:

- Change high 3 to high 5
- Increase employee contributions from 7 to 9 percent
- Adjust (or freeze) COLA
- Raise minimum retirement age from 55 to 62 or 65

10. The Senate and House would oppose all changes to the existing Civil Service system if it is treated as a discrete issue; support is more likely, however, if cuts in Civil Service entitlements are included in a larger deficit-cutting package. For example if the Social Security COLA is cut or frozen, it is highly likely that the COLA for Civil Service retirees will be modified.

11. In addition to Senator Stevens, the following Senators likely will influence retirement legislation:

Thomas F. Eagleton (D., MO)
Charles McC Mathias (R., MD)
Dave Durenberger (R., MN)
Lawton Chiles (D., FL)

Developments in the House will be reported in early January.

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Stevens' Retirement Plan

Participation-

All those covered by Social Security System on or after January 1, 1984 with the exception of employees who were participants in CSRS on December 31, 1983. All those who are currently subject to CSRS and who elect to join.

Basic Plan-

- .85% x high 5 years of salary x years of service
- 2% per year reduction of annuity under age 62
- Can retire with immediate annuity at age 62 with 10 years of service; age 55 with 30 years of service.
- Involuntary retirement age 50 with 20 years of service, any age and 25 years of service.

All special retirement classes

1) Law enforcement, firefighters and air traffic controllers.

Age 55 with 25 years of service

Age 62 with 10 years of service

No reduction under 62

Retirement Supplement under 62

401 k plan

Participant may contribute to the fund any amount not exceeding 16 percent of basic pay. Agency shall contribute $2 for every $1 contributed by employee up to 4% of employee basic pay. Thus, maximum agency contribution will be 8% of pay.

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Vests phased in over 5 years

At retirement may withdraw, rollover in IRA, draw an annuity or defer.

Annuity-

OPM pays annuity.

Must provide life annuity and joint and survivor annuity and any other annuity form OPM desires as long as actuarially equivalent. Also an annuity that would increase from year to year.

Employee may choose to transform 401 k account into an annuity which would be added to annuity of basic pension.

The basic pension is adjusted annually - January - for 75% of the change in the CPI from September - September. The 401 k account would be adjusted actuarially and if in the case of a variable annuity for changes in the market.

Deferred retirement-

One who leaves government prior to eligibility for an immediate annuity from basic pension and who is vested for 401 k plan may leave account in the fund or may roll it over into an IRA or a subsequent employer's fund.

Funding

Agencies shall contribute entry age normal cost of employees to CSR fund for basic pension. Any supplemental liabilities to be amortized from Treasury over 30 year period.

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Agencies shall contribute toward 401 k plan at specified rate in a new fund.

Fund for basic pension will be the same as that for CSRS.

Investments

401 k

1st year - all monies invested in federal securities.

2nd year and beyond - each year an additional 1% increment of first employee money and then agency money to be invested by Board of Trustees in any federal, state, local or private interest bearing securities, equities, real estate etc. Agency money to be invested in 1% increments beginning in year 6. After year 4 all employee money to be invested by board.

Transition provisions

For current employees to join new system - two options.

1) employee contributions to current system will be matched by government money plus 7% interest from CSRS and transferred to 401 k account of employee. Additionally, credit under current program will be transferred to credit under new basic pension.

2) credit in current program will freeze and employee may accrue new credit in new program. Service in new program will count towards eligibility to retire in old. Salary in new will count towards high 3 in old. However, service in new program will not accrue for old. Service in old program will count towards eligibility to retire in new but will not accrue in new.

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3) Employees hired during interim period will be given credit for service in new system plus 1.3% contribution will be matched 2 for 1 and put in 401 k.

Board of Trustees.

Off budget agency.

7 trustees.

Appointed by President, confirmed by Senate.

One of appointments - Executive Director - substantial experience, training or expertise in the management of financial investments.

All trustees have 7 year appointments except first few to be graduated.

Employee covered by CSRS prior to January 1, 1984 and covered by Social Security pursuant to Social Security Amendments of 1983.

Contributes difference between OASDI contribution and normal CSRS contribution to CSRS fund. Entitled to full CSRS benefit until begins receiving Social Security payment. CSRS benefit recomputed and reduced by the amount of the Social Security benefit attributable to service performed while employee of federal government. Applies to normal benefit, disability and survivor benefits.

DISABILITY

18 months for vesting

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If eligible for Social Security:

1) From onset of disability to age 62, 60% of high 5 minus 100% of Social Security benefit.

2) After age 62 accrued benefit based on actual service plus projected service through age 62. Must have 10 years of actual and projected service.

If ineligible for Social Security:

1) Definition tightened resulting in placement of disabled employee in any job in commuting area for which qualified within 2 grades of current position.

2) 1st year - 60% of high 5

3) After 1st year - 30% of high 5 or accrued benefit based on projected service through age 62, whichever is lower.

4) After age 62 accrued benefit based on actual service plus projected service through age 62. Must have 10 years of actual and projected service.

SURVIVOR ANNUITY PLAN

I. Preretirement survivor benefits:

A. Benefits payable immediately if the deceased had at least 18 months service

B. Survivor gets the higher of:

1. 50 percent of the accrued annuity (computed as if the worker had retired the day before death, with any applicable early retirement reductions,

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but without the reduction for survivor benefits) plus any social security payable,

or

2. 30 percent of the worker's high-five average salary minus any social security payable.

II. Postretirement survivor benefits:

A. Annuity to married retiree automatically reduced actuarially as in a 50 percent joint-and-survivor plan to provide a spouse survivor annuity - waived with consent of spouse.

1. Survivors age 60 or over with no children under age 16 get 50 percent of the unreduced annuity (except for early retirement reduction) / plus any social security payable.

2. Survivors under age 60 with no children of the retiree under age 16 get the full annuity that was payable to the retiree (after reductions for early retirement and survivor benefits) until age 60, when they will get 50 percent of the accrued annuity after early retirement reductions.

3. Survivors under age 60 with child(ren) of the retiree under age 16 get 50 percent of the unreduced annuity / plus any social security.

III. Survivors benefits to widows and widowers cease if they remarry before age 55 (this reflects the provision in the new Civil Service Retirement Spouse Equity Act of 1984).

IV. Child survivor benefits: none from plan, social security only.

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